

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000214

SIPDIS

STATE FOR EAP AND EB
TREASURY FOR OASIA
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SUBJECT: BANKING CRISIS CONTINUES; STILL NO EFFECTIVE GOVERNMENT ACTION

REF: RANGOON 213

Classified By: CDA, a.i. Ron McMullen. Reason: 1.5 (d).

¶1. (C) Summary: Burma's banking crisis has continued to build in the absence of government action. Several private banks have effectively closed, while the Myanmar Bankers Association has agreed to further reduce the limits on withdrawals to only 200,000 kyat (i.e., \$200) per account per week. Government banks have continued to operate normally, but their deposits represent only a small fraction of the entire banking system's. Moreover, even their operations have been interrupted to a degree by the problems at the private banks. End Summary.

¶2. (C) Burma's banking crisis continued unabated on February 19 in the absence of any effective government response. While the Central Bank has reportedly extended emergency credits to several banks and brought in several truckloads of bills to meet the banks demands for cash, the government itself has still not issued any statement regarding its intent to support the private banks. Some of the government's steps have even been counterproductive. On February 17, the government instructed Myawaddy Bank, which is affiliated with the Myanmar Economic Holdings Limited (MEHL), to transfer all official government and military accounts to the Myanmar Economic Corporation's Inwaa Bank. This order had nothing to do with the banking crisis; it was essentially precipitated by MEHL's fall from grace as the favored military corporation in country. Nevertheless, 5 billion kyat in deposits crossed the street, putting the joint venture Myawaddy Bank in trouble along with the private banks.

¶3. (C) As might be expected under these circumstances, lines have continued to form in front of all the private banks, forcing several to effectively close. Meanwhile, the Myanmar Bankers Association (an unofficial grouping of private bankers) agreed on February 18 to further reduce the limit on withdrawals from 500,000 to 200,000 kyat (i.e., about \$200) per account per week. There are also increasing signs of payment problems, in part because some of the steps taken by the private banks ostensibly to slow withdrawals (e.g., a ban on account transfers even between branches of the same bank). That ban may facilitate controls on withdrawals, but it also makes it nearly impossible for any company to do business.

¶3. (C) Thus far, fortunately, only private banks have been affected by the crisis. Government-owned banks such as Myanmar Economic Bank, Myanmar Investment and Commercial Bank, and the Myanmar Foreign Trade Bank have all continued to operate normally without restrictions on withdrawals. However, even they have been affected in cases where they have to arrange settlements through the private banks. For instance, MFTB regularly redeems foreign currency by crediting the customer's kyat account at a local bank. With private banks shutting down and limiting withdrawals, however, few customers want to see their accounts credited with any amount of kyat. Moreover, the relative confidence people seem to have in government-owned banks does not reflect the quality of their operations. Rather, the public appears simply to believe that the government is far more likely to stand behind its own banks than the private banks.

¶4. (C) Finally, observers are increasingly sensitive to the potential political consequences of this crisis. One of the best economic correspondents in country believes that mismanagement of this crisis could signal the beginning of the end for this government, or at least its current economic policy. On February 18, he received "a panicky call" from the Office of the Chief of Military Intelligence asking him to do an options paper for GOB review. He has recommended, he said, government guarantees of deposits scaled to the size of deposits (e.g., 100 percent for small depositors and running down to zero for those over a certain limit). He has also recommended triage for the troubled banks, though whether the government has the capacity to pick the good banks from the bad remains to be tested.

¶5. (C) In short, the public is now waiting on the GOB, which needs to make clear how it intends to deal with this crisis.

If it does nothing, or waits too long to sort out the mess,
it could find itself faced with increasing political as well
as economic problems.

McMullen